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ABSTRACT

Charles Murray's book, "Losing Ground: American Social Policy, 1950-1980," proposes the abolition of benefit programs for all working-aged persons for the following reasons: (1) it is logically impossible for the government to aid the poor by creating incentives for people to become poor; (2) since the mid-1960s the United States has so strengthened these incentives that the poverty rate has stopped falling; and (3) the principal victims of this process have been a segment of the black population who have been devastated by their dependence on government programs. Although Murray's first proposition is plausible, considering the history of welfare programs since the 1960s, there is no evidence to support his second and third propositions. Between 1973 and 1980 the number of Aid to Families with Dependent Children (AFDC) recipients remained essentially unchanged but the number of persons in poverty rose by 6.3 million. And AFDC payments had no effect on the family structures of the poor black population. An examination of Murray's data reveals that he disregarded economic trends because he misread the statistics. Murray is right in his basic claim that "economic growth during the 1950s and 1960s was strong but during the 1970s it was weak and progress in reducing poverty ceased," but he overdramatizes it in his book. His world view is not wrong; it is incomplete: he understates the system's self-correcting tendencies. A table illustrates some of the data. (BJV)

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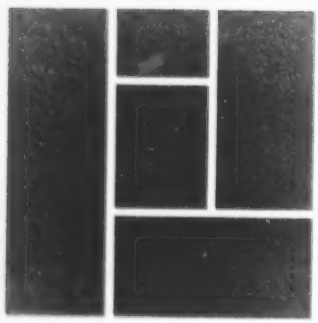

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LOSING PERSPECTIVE: THE RECENT DEBATE OVER WELFARE AND POVERTY

by

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THE URBAN INSTITUTE
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When it comes to welfare policy, not much is new under the sun. The November 1984 pastoral letter from the Roman Catholic bishops[1] and Charles Murray's book criticizing social welfare policy since 1960[2] restate the limits of a debate that has gone on for decades. Do we establish a universal income guarantee program as the bishops propose? Or do we abolish all public charity as Murray suggests?

If the debate's limits remain intact, its center of gravity is surely moving rightward. The bishop's draft letter set off a brief, respectful buzz, but Murray's Losing Ground was actually read and has been the subject of many respectful reviews, not all of them by conservatives.[3] This well-written book deals with the entire spectrum of post-1950's social policy including the schools and the courts. But Murray's central concerns are government benefit programs for the poor and his view of these programs can be summarized in four propositions:

1. It is logically impossible for the government to aid the poor without creating incentives for people to become poor.

2. Since the mid-1960's, the United States has so strengthened these incentives(courtesy of the Great Society) that the poverty rate -- the proportion of the population in poverty -- has stopped falling.

3. The principal victims of this process have been a significant segment of the black community who have been devastated by their dependence on government programs.

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1. National Conference of Catholic Bishops, "Pastoral Letter on Catholic Social Teaching and the U.S. Economy." Washington, D.C.:November 11, 1984.

2. Charles Murray, Losing Ground: American Social Policy, 1950-1980. Basic Books, Inc. New York:1984.

3. See Nicholas Lemann's review in The New Republic(November 19, 1984). Lemann is more than an armchair observer of these matters, having lived with a welfare family in Philadelphia and written an excellent piece based on his experience.

4. The only solution to this situation is the abolition of benefit programs for all working-aged persons.

Murray's first proposition -- aid to the poor creates incentives to be poor -- is unexceptionable. It is Murray's estimates of these incentives that has raised so much furor. He argues, in effect, that aid to the able-bodied poor is completely self-defeating: a dollar of new benefits will induce a dollar of reduced work. In this, he is like the supply-side economists who begin with a reasonable theoretical relationship(i.e. - tax cuts increase economic effort) and assign to it a stunning empirical magnitude(i.e. - tax cuts increase economic effort so much that the government loses no revenue).

Whether or not we like Murray's argument, it is clearly right for our times. A conservative president begins his second term. Governments at all levels face fiscal stringency. Few people feel personally prosperous(a point to which we shall shortly return). All this creates a receptive climate for the argument that welfare absolutely cannot work.

Nor can Murray's most dramatic statistics be refuted. Spending on the poor for programs like Aid to Families with Dependent Children(AFDC), Food Stamps and Medicaid has increased from $74 per capita(i.e. - per U.S. citizen) in 1960 to $315 per capita in 1980(where both figures are in 1983 dollars). During this time, the proportion of the population in poverty fell steadily from 22 per cent in 1960 to 11 per cent in 1973. But it stayed at 11 per cent or above for the rest of the decade until it rose again to its most recent levels of over 15 per cent. Beneath these numbers, a significant portion of the black community does stand devastated. About one-third of all black children live in families that receive AFDC(compared to 14 per cent in 1960); one-half of all black children are born out of wedlock(compared to only one out of five in 1960); less that half of black men between 20 and 24 are employed(compared with two-thirds of all white men in that age group).

Persons new to the welfare wars will conclude that Murray has made his case, but they should be careful. What we have so far is not a logical case, but a style of argument - ergo hoc, post proctor hoc. It is a style which welfare analysts have used often and often with disastrous results.

Consider the 1960's proposition(which the Catholic bishops implicitly endorse) that AFDC should not be restricted to families headed by women -- that two-parent families should be eligible as well. Where did this proposition come from? In 1960, three-quarters of all children in female-headed households lived in poverty and such children accounted for one-quarter of all poor children. This fact made female-headed households(both black and white) a policy problem and policy analysts(including the current authors) accepted a simple theory to explain their existence: (1) AFDC provided benefits to only female-headed families; (2) when a family got into economic trouble, the father had to abandon the family so the mother and children could qualify for benefits; (3) if the benefits were extended to two-parent families, this problem would be removed and families would stay together.

This argument had logic and its conclusion -- extend aid to two-parent families -- fit as well with the flush 1960's as Murray's argument fits with today. Unfortunately, it didn't work. If a two-parent family's income was low enough to qualify for AFDC, they probably had substantial trouble to begin with. Once in contact with AFDC, they realized that the money would still be there to take care of the wife and children and it became that much easier for the marriage to succumb to its troubles: for the wife to throw out the husband or for the husband to leave. For this reason, those states that did offer two-parent aid(AFDC for unemployed fathers) saw high rates of marital break-up on the AFDC rolls.

Thus, the analysts' argument was right as far as it went. But it stopped

far short of describing all the forces at work and so it predicted the wrong result. Does Murray similarly miss factors that help explain his results? The answer is yes and it can be seen by a closer look at AFDC.

AFDC has gone through three distinct phases since 1960. The first was one of moderately rapid growth between 1960 and 1967 when the caseload rose from 800,000 to 1.2 million families. Given the economy's improvement, this rise was disconcerting but it paled compared to what came next. Between 1967 and 1971, the number of families more than doubled to 2.8 million and reached 3.5 million families by 1975. Public welfare officials were afraid the growth would never stop. But after 1975, the caseload leveled off and because of a slight decline in average family size, the number of recipients declined a little until the recent recession sent the rolls upward again.

Upon closer inspection, this history gives support to Murray's first proposition -- that increased aid to the poor creates at least some incentives for becoming poor. Between the mid-1960's and the mid-1970's(when the caseload growth was most rapid), increases in cash benefits plus the introduction of food stamps and Medicaid all caused the value of AFDC income to rise rapidly. This rise occurred both in real terms and with respect to the amount a woman might earn through work. These benefit increases are consistent with more recipients. Since the mid-1970's per person benefits have decline absolutely and these declines were consistent with caseload stabilization.

But when we come to Murray's second and third propositions -- on the enormous magnitude of the incentives -- the evidence isn't there. Between 1967 and 1973, the number of AFDC recipients increased by 5.9 million persons. But despite these new recipients(most of whom received sub-poverty benefits), the number of persons below the poverty line fell by 4.8 million. Between 1973 and 1980, the number of AFDC recipients remained essentially

unchanged but the number of persons in poverty(as distinct from the proportion of the population in poverty) rose by 6.3 million.

Data on black family structures point to similar inconsistencies. Between the end of the 1950's and 1966, the number of black children in female-headed households grew by almost 25 per cent every four years. From 1967-71 -- the four years when the AFDC caseload doubled -- the number of children in black female-headed families grew by ten per cent. And from 1976 to 1980, as the AFDC caseload leveled off, the number of black children in female-headed families likewise grew by ten per cent again. There is no inconsistency here -- the AFDC rolls expanded or contracted not by creating new female-headed households but by absorbing a greater or lesser proportion of families that already existed -- 45% of all eligibles in 1967, 92% in 1973, 78% in 1983. This underlines how AFDC payments can cause people to change work behavior but it is a far cry from saying that AFDC payments change family structures in some simple fashion. When we speak about family structures or overall poverty, factors beside benefit payments must have been at work.

In fact, there were a list of such factors: the increased movement of the black population away from rural areas and into the central cities, the increased availability of abortion, and perhaps most of all, the sudden change in the economy in which real earnings -- the inflation-adjusted earnings of a typical worker -- went stagnant.

In terms of real earnings, post-World War II history divides neatly into two periods. From 1947 to 1973, real earnings per full-time worker rose by 2.5 to 3 per cent per year, a reflection of rapidly rising worker productivity. But between 1973 and 1984, there was no growth in real earnings and in fact there were periodic decreases. Why? After 1973, worker

productivity suddenly stagnated and this stagnation has combined with two OPEC oil price increases to depress real earnings in the last eleven years.

Table 1 illustrates these two periods in terms of the careers of men born at different times(comparable data for women are not available by age). Prior to 1973, the rapid earnings growth promoted mobility on a number of fronts:

Careers were prolonged. A man moving from 40 to 50 would see a 25% gain(or better) in real earnings even though his big promotions were behind him.

Fast starts. Young workers knew early in their careers that they would earn at least as much as their fathers earned.

Progress against poverty. The earnings of a low-income worker would gain steadily vis-a-vis the poverty line, which is fixed in real terms.

It is, of course, this last aspect of mobility that is most important to Murray's argument about the relationship between social welfare policy and poverty rates. That aspect, like all others, evaporated after 1973. In 1982, an average black woman who worked full-time -- i.e., someone who had not been drawn into dependency -- earned about $300 less(in 1983 dollars) than a similar woman in 1973. This is not the stuff of economic progress.

This earnings stagnation is a major part of the reason why poverty stopped declining after 1973. It also helps explain why welfare programs could maintain their attraction through the 1970's even when they weren't becoming more generous. Murray is right that in the 1970's, the gap between welfare and work was shrinking: but it was shrinking because of a decline in wages and not, as he suggests, because of a growth in benefits. Simply put, even persons who were highly motivated to work were "losing ground."

Table 1

Beginning in 1973 The Country Faced a Sudden Stagnation in Earnings

Arrows trace the path of an average man's income as he passes from 30 in 1949 to 40 in 1959 and so on. (All figures in 1983 dollars)

	1949	1959	1969	1973	1983**
Men Aged					
25-34	$11,438	16,486	20,366	22,617	17,960
35-44	$12,843	18,680	24,581	26,970	22,686
45-54	$12,450	17,441	23,424	26,165	23,570

*Source: Figures represent Median Income for men of the age group in the year noted by the table. 1949, 59 income statistics from Decenial Census. All other statistics from Current Population Reports.

**1983 figures were estimated by assuming that median income grew by 6% between 1982 (the last year for which actual data is available) and 1983. This 6% growth rate is probably slightly optimistic.

Murray examines the 1970's economy early in his analysis but concludes that it had no negative effects:

> Economic growth during the 1970's was actually greater than during the peacetime 1950's, memories of Eisenhower prosperity notwithstanding ... Even after holding both population change and inflation constant, per capita GNP increased only a little less rapidly in the seventies than it had in the booming sixties and much faster than it had during the fifties. Growth did not stop. But, for some reason, the benefits of economic growth stopped trickling down to the poor.(Losing Ground, page 59)

Is somebody lying here? Can Murray's numbers be reconciled with the stagnant 1970's figures in our Table 1. They can indeed and in a way that teaches us to be careful in using statistics.

During the 1950's, the nation's labor force remained constant at about 41 per cent of the population. During this time, GNP per capita(i.e.— GNP per every man, woman and child in the country) rose because GNP per worker rose. This rising output per worker is reflected in the rising earnings in Table 1.

After 1973, GNP per worker was stagnant but GNP per capita could grow because an increasing proportion of the population went to work. Women rapidly entered the labor force. The peak of the baby-boom came of age and began their own careers. The proportion at work rose from 41 per cent in 1970 to 48 per cent in 1979. Simultaneously, the baby-boomers decided to have very few children of their own, thereby reducing the number of little "capitas" that would have diluted the GNP per capita figure. By these devices, GNP per capita could rise in the face of stagnant wages.

While these strategies — more workers, fewer children -- worked to shore up the aggregate numbers, they could not work for each family individually. Yuppies and Yumpies -- two-earner families with no children -- used them to good advantage. But a poor female head of a household was stuck: she had no other earners to put into the labor force and she could not unhave the

children who were already born. Unless real earnings were growing, she and her family were destined to slide down the income scale, perhaps beneath the poverty level. Murray, in short, dismisses the economy because he misreads the statistics.

What is surprising about this mistake is not that Murray makes it -- John Schwarz, a strong defender of the Great Society, has made it as well,[4] -- but that several years ago, Murray had got the argument right. In the fall of 1982, Murray wrote an article in The Public Interest which previewed his argument about the welfare system but also showed how changes in the poverty rate can be explained by stagnating GNP per household(rather than per capita). In his article, Murray says:

> Economic growth during the 1950's and 1960's was strong but during the 1970's it was weak and progress in reducing poverty ceased.[5]

This is exactly right. Murray is clearly a careful scholar and so the reason he abandoned this view for the more dramatic but less correct position taken in his book is unclear.

A SUMMING UP

Fourteen years ago, Nathan Glazer brilliantly articulated the core of Charles Murray's arguments against 1960's liberalism.[6] Liberals, Glazer argued mistakenly believed that welfare needs were problems of fixed dimensions much like a pot hole in the road: if you only filled it in, everything would be fine. They failed to realize that the hole was in quick sand: filling it in with public aid would only weaken existing sources of

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4. John E. Schwarz, America's Hidden Success, A Reassessment of Twenty Years of Public Policy. W.W. Norton. New York: 1983.
5. Charles Murray, "The Two Wars Against Poverty," The Public Interest, Number 69, Fall 1982, p. 11.
6. See Nathan Glazer, "The Limits of Social Policy" in Commentary, Volume 52, No. 3, September 1971, pp. 51 - 58.

private aid like the church and the family and thus the hole would grow larger.

Glazer was right in describing the liberal view but he(and Murray) understate the system's self-correcting tendencies. Liberals have always called for filling up the hole. Periodically, the country takes them seriously. The 1960's was one such period which resulted in two predictable impacts: to raise recipients' standards of living(which liberals intended) and to create more dependency(which liberals did not intend and which is Glazer's and Murray's basic point).

But this is not the end of story. First, no program(and particularly no program which expands government benefits) looks better than on the day the legislation was signed. Over time, much of the public(if not the liberal wing of it) becomes disenchanted and additional benefits decrease. Then in times of economic growth, while benefits may not increase, wages continue to rise and so the gap between benefits and work widens once more. The system then returns to something like equilibrium except that recipients have a higher absolute(if not relative) living standard.

In the case of the Great Society benefit increases, the first equilibrium mechanism worked well enough -- by the early 1970's welfare became very unpopular and benefits ceased to rise. But the second mechanism broke down. Real earnings stopped rising in 1973 and so the gap between welfare and wages became narrow for too long. And because it is always hard for governments to rescind benefits once awarded(witness the current agony over Social Security), it took the states and the federal government a long time and much inflation to correct the situation.

It follows that Murray's world view is not wrong but, like the liberal analysis of 1960's, incomplete. In one sense, welfare benefits <u>did</u> become too

attractive, not because liberal advocates were redistribution-mad, but because they could not foresee just how stagnant the economy was to become.

Much of this has now changed. Welfare benefits and food stamp cuts have reduced benefits so that their relationship to wages is what it was in the early 1960's. The idea that some welfare recipients should work -- a liberal anathema in the 1960's -- is now widely accepted. But this return to equilibrium lasted longer than it should have. In the interim, an unhappy interaction between a bad economy and the welfare system may have taken a significant toll on work effort among all low-income families, on black families in particular, and perhaps most importantly, on the society's tolerance for income redistribution generally.